

## The Kroger Co. 1972 annual report



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The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45201

### Highlights

	1972	1971
SALES	\$ 3,790,532,448	\$ 3,707,918,052
EARNINGS BEFORE EXTRAORDINARY ITEMS	\$ 23,179,269	\$ 36,269,080
EXTRAORDINARY LOSS	\$ (5,340,920)	\$ (4,056,000)
EXTRAORDINARY CREDIT	\$ 586,877	
NET EARNINGS	\$ 18,425,226	\$ 32,213,080
DIVIDENDS PAID	\$ 17,406,554	\$ 17,369,577
SHAREOWNERS' EQUITY	\$ 353,360,426	\$ 351,890,811
PER COMMON SHARE		
EARNINGS BEFORE EXTRAORDINARY ITEMS	\$ 1.73	\$ 2.71
EXTRAORDINARY LOSS	\$ (.40)	\$ (.30)
EXTRAORDINARY CREDIT	\$ .04	
NET EARNINGS	\$ 1.37	\$ 2.41
DIVIDENDS	\$ 1.30	\$ 1.30
SHAREOWNERS' EQUITY	\$ 26.26	\$ 26.19

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#### COVER:

The 1972 Kroger Annual Report salutes  
Kroger employees everywhere . . . here shown  
on the job throughout the company.

The annual meeting of shareholders will be held at the  
office of the Company, 1014 Vine Street, Cincinnati, Ohio  
on April 12, 1973 at 10 a.m.



## To our fellow shareowners:

Kroger sales for 1972 were the highest in our history. After a lagging first half, sales turned around midway through the third quarter and finished the year on a strong upturn. Earnings were down sharply due to several factors, the major one being the intensely competitive conditions in the food retailing industry.

Despite the fact that 67 fewer food stores were operated than a year ago, sales were up 2.2% for the year. Fourth quarter sales were 10% ahead of last year and we have carried this momentum into 1973. Significantly, average sales per food store rose to \$51,416 per week in the first two months of 1973, an increase of \$7,460, or 17%, from a year ago.

Food store operations started off well in 1972. However, sales and earnings slumped when competition intensified in nearly every Kroger market. As we took steps to maintain and then improve our sales position, our earnings suffered. In the third quarter, we posted the first quarterly operating loss in our history. However, continually improving sales and the seasonal benefits of holiday business brought us back into a profitable position in the fourth quarter.

Drug store sales were good and earnings improved dramatically throughout the year. The strong performance of SuperRx, despite price controls and inflated costs and expenses, has been a source of strength to the company during this very difficult year for the food business. The SuperRx concept of high-quality, low-price prescriptions, together with effective in-store merchandising, continues to be received enthusiastically by our customers.

Strong support came too from the other component parts of the company, such as the superior performance of Kroger Brands, our food manufacturing and private brand procurement organization. Acceptance and recognition of the value represented by Kroger's private label products is growing. Top Value Enterprises also had a good year. Top Value's contributions to the total company results are expected to improve further as it diversifies and expands into new ventures.

The year we have just completed called for the best from all our Kroger people — more so than ever before. On behalf of ourselves and all our shareowners, we want to express gratitude for their fine efforts.

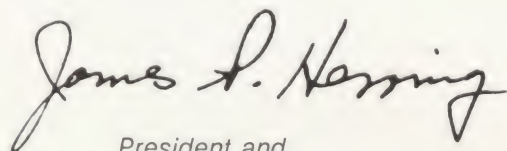
During the year, we reached the hard decision to discontinue operations of our Family Center Stores division (stores which operate under the Family Center name in Texas and Louisiana were not involved). These stores had become increasingly unprofitable and did not offer promise of improvement in the future. Although this decision resulted in an extraordinary loss in 1972, it is expected to have a favorable impact on profitability in future years.

Capital expenditures for 1972 totaled \$55.3 million, of which the major share was spent for retail stores and related equipment. As our stores program continues to advance in 1973, we anticipate an increase in capital expenditures. The company is fortunate to have the human and financial resources to continue an aggressive, forward-looking expansion program.

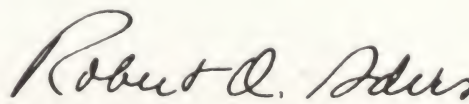
Inflated costs and expenses, along with price controls, continue with us as we move into 1973, as does extreme retail food price competition. The costs we must pay for the foods we sell continue to rise and indications are that this situation will not abate. These are indeed challenging times for Kroger. But our belief in the basic stability of the food business . . . our tremendous resources of experienced and dedicated people . . . our exciting new storing and merchandising concepts . . . our diversified strengths . . . all give us confidence that Kroger will move ahead in 1973.

We believe further that The Kroger Co., supported by its strengths and its expertise, and with a willingness to take bold steps toward enhancing and expanding capabilities to generate sales and earnings, will be able to open new vistas in the development of the company during this decade.

Sincerely,



President and  
Chief Executive Officer



Chairman of the Board

March 7, 1973

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It takes people to run a company. At Kroger, some 80,000 men and women. From teen-agers working part-time to veteran 64-year-olds.

People to build stores and make buying and merchandising decisions. To run offices and manufacturing plants. But most of all, in a company which is primarily a retailer, it takes dedicated, talented and involved people to run retail stores.

Meet the 80-plus employees of the 35,616 square foot Kroger superstore which recently opened at Gallatin Road and Two Mile Pike in suburban Nashville, Tennessee.

They're universally bright and alert. Their enjoyment of other people shines in their eyes and in their quick attention to a shopper's query.

But most of all, they're *proud* . . . proud of their new superstore's beauty . . . proud of their good jobs (and interested in doing them better and advancing) . . . proud of the variety and the attractive displays which edge the wide aisles . . .

Head meat cutter Billy Hill puts it best: "*. . . I guess I really think of this as my store!*"

The Two Mile Pike superstore is located 12 miles north of downtown Nashville, in a rapidly-growing section. It was built to accommodate not only today's business, but also to be prepared to handle the business that will be moving into the store's orbit during the next several years. It's leading the parade.

It sits side by side with a new 16,160 square foot SuperRx Drug Store. Together they provide more than 50,000 square feet of accessible, convenient shopping service for the modern family. . . . Food and drugs, but also home, family and leisure-related general merchandise to make this truly a one-stop-shopping adventure.



**Superstore manager Wyman Parker:** "This is the best! In the stores . . . out here where the people are, where it's happening."

Ask Kroger manager Wyman Parker what makes a superstore an exciting place to work and shop:

*"It's not any one thing. It's the total package. The open, uncluttered aisles. The clean look. The warmth and color. The challenge of creating a shopping atmosphere that grabs the eyes and the emotions of the shopper — and sells the product. We try to combine hard-hitting, impact kind of displays with the personal, old-fashioned touch. . . . Like sampling a freshly-baked pizza or offering a taste of imported cheese."*

What's the most important part of his job?

*"That's easy. Training and development of each employee. That's what makes it all hang together. That's what makes it work. You can't learn to make decisions just by taking orders. And I believe in giving responsibility with accountability."*



Billy Hill's smile never quits. And his sparkling-clean meat department stretches 124 feet of endless variety, all appetizingly well-cut and displayed.

*"Housewives today watch prices, but they want quality, too. You can't fool a housewife. If she gets home and, doesn't like what you've sold her, you could lose a good customer. And I'd do anything in the world to keep from losing a customer!"*

Billy speaks in a soft, "down-home" Tennessee accent. And you know he means what he says.

Pixie-ish general merchandise clerk Judy Rogers explains: *"We carry everything here from greeting cards to toys and the latest records. And we check all the time to be sure we're priced right, too!"* Home, leisure and family-related general merchandise items now account for more than 12% of supermarket sales, according to

**"Kroger raised me . . . they taught me all I know."  
Head meat cutter Billy Hill.**

Supermarketing Magazine. (Add other non-foods such as household products and tobacco, and non-foods account for 22% of the total cash register tape!)

New Kroger superstores contain up to 8,000 square feet of general merchandise — providing an additional shopping service for customers and a source of sales and profits for stores.

### **"MAY I HELP YOU, MA'AM?"**

Customer service. Glamour of sights and scents. Convenience of ready-to-eat.

That's the delicatessen and the bakery next door. Sharlet Flanagan is as much at home recommending sweet 'n sour cole slaw to a shopper (*"It's on special this week, and it's very good"*) as she is taking an order for a fancy birthday cake, complete with a forest scene and tiny woodland animals.





More and more Kroger Food Store delicatessens and service bakeries are being supplied with custom-quality food through the Kroger Brands organization. At the end of 1972, 152 Kroger stores featured delicatessens, in many cases with accompanying service bakeries. By year's end, this number will increase to 250.

Kroger is ideally suited to provide service to both these operations. The company has established a distribution system at the Springdale sausage plant to make available to stores a central source of fine delicatessen products.

Handcraft bakeries now are located in St. Louis, Columbus, South Bend and Houston — producing not only the braided egg bread displayed by Columbus baker Dana Duncan . . . but also flaky, multi-layered pastries, fruit-filled twirls, and "cakes to order" (up to and including wedding cakes). An additional ten handcraft bakeries will be in operation by the end of 1973 for a total of 14.

The Nashville Two Mile Pike superstore also is among the company's stores across Krogerland which are now receiving Freezer Pleezer frozen novelties, here being packed by Doretha Weir. This is a profitable new Kroger Brand product line made possible by the company's "space-age" dairy in Indianapolis. In addition to frozen novelties, the new Indianapolis Dairy also produces a complete line of regular dairy items.

The 180,000 square foot dairy, which began operation at the end of 1972, is looked on as a prototype for such plants for the next decade.

Processing areas are acoustically treated to reduce noise and a "dry floor" program minimizes the amount of waste entering the sewage system . . . thus helping to preserve pure water supplies.

The "clean room" where milk is packaged has the same air filtration and treatment system used to provide bacteria-free rooms where astronauts prepared to board moon ships. More than 35 million gallons of milk a year will be needed to supply the plant's requirements.

### MEETING GROWING EXPECTATIONS . . .

Consumers in the 1970's have growing expectations. Companies no longer can get by just being good; they're expected to be just about perfect.

Kroger believes that responsible consumerism can be a force for good. It provides an opportunity for Kroger and its customers to know and understand each other better. In many ways, the programs which it calls forth can help the company do a better job.

Kroger, then, sees itself not as an adversary but as a partner with consumers in improving the marketplace.

A Kroger consumer service that wins approval from both customers and operators is open dating for freshness, now found on some 1300 Kroger private brand products, including milk, bread, eggs and wieners.

In Indianapolis, grocery sales promoter Ty Hickman says: *"Shoppers like open dating and so do we . . ."* Nashville dairy clerk Bob Brown agrees: *"They know they can trust the freshness."*

Kroger during 1972 entered the second phase of its open dating program. Approximately 150 stores began open dating of fresh meats and of fresh fruits and vegetables — a program which will be expanded to cover all stores during 1973.

Other popular Kroger consumer information programs cover ground beef (disclosure of fat content and guaranteed ingredients) and bacon packaging which allows the customer to see what she's buying.

Kroger's test of nutritional labeling in cooperation with the U. S. Food and Drug Administration during 1972 convinced the company that such labeling can be of assistance in helping to improve the American diet.

Early in 1973, plans began to be implemented to move voluntarily into this program, as well as to continue expansion of the company's program of listing of ingredients of standardized foods.

In addition to providing a consumer service, nutritional labeling serves to inform shoppers that Kroger Brand products are equal to or better than the nation's best-selling brands. And at a savings!

Today's larger stores provide the space to offer shoppers more choices . . . more brands and more products. But they particularly offer more opportunity to display and acquaint consumers with the value and high quality of Kroger's broad line of private brand products, which represented approximately 22% of sales last year.

Despite some physical delays—primarily weather—59 new Kroger Food Stores and 57 remodel-expansions of existing stores were completed during 1972. At the same time, 126 smaller, older or unprofitable stores were closed. The year ended with 1,365 food stores in operation.

The stores program will be accelerated during 1973, with 85 new and 75 remodeled stores planned. Average size of new stores planned for 1973 is 27,500 square feet.



It takes a wide variety of jobs to keep a modern food store in operation. At top left, Norbert Volle (technical consultant to Kroger Brands and 39-year Kroger veteran) confers with Charline Hatchett (administrator, corporate quality assurance) on food quality checks and plans for nutrient labeling. At

top center, Doretha Weir packs frozen novelties at the Indianapolis Dairy, while Sharlet Flanagan (top right) does delicatessen duty in Nashville. Left center and down: Columbus handcraft baker Dana Duncan; Indianapolis grocery sales promoter Ty Hickman, and Nashville dairy clerk Bob Brown.



Gladys Koonce of Nashville is a Kroger cashier. Her big smile is almost a trademark. Her dark hair contrasts well with the new gold uniform worn by Kroger cashiers . . . coordinating with the superstore earth tones of bittersweet and golden and soft woodsy green. And like the other checkers at the Two Mile Pike Kroger store, Gladys ends each transaction on a warm note:

*"Thank you . . . and y'all come back to see us!"*







### DRUG STORE WITH A DIFFERENCE . . .

A drug store, first and foremost, is a place where people have prescriptions filled. But in the 1970's, a drug store also may be the place where people go to buy a TV set, a guitar, a grass skirt, a hair dryer, or a hank of yarn.

A modern SuperX Drug Store, that is.

Like the 16,160 square foot store which complements and completes the family shopping service provided by the combination of SuperX and its neighboring Kroger Food Store.

The new Two Mile Pike store in Nashville is nearly 60% larger than the first SuperX store opened just 11 years ago.

There are other differences, too.

There's more variety. More choices for the consumer. Often entirely new product lines. A can of paint, \$200 stereos, an African wood carving, French perfume.

It's a modern drug store grown up and come of age.

But the pharmacy still is the heart and central focus of the entire store, as it has been at SuperX throughout its 11-year history. SuperX during 1972 filled its 100,000,000th prescription . . . and won the drug store industry's coveted Upjohn "Keep the Quality Up" Award, given in recognition of quality prescription service.

. . . Artificial flowers (with clerk Mary Barnhill above) and guitars! Both sell well in a modern SuperX store, says Nashville store manager James Tohill (top right).

. . . SuperX employs about 1250 registered pharmacists -- and 77% of SuperX management jobs are held by pharmacists. Right, pharmacist-manager Joseph Tabler of the Fort Mitchell, Kentucky, store.

. . . Cosmetician Mary McDaniel (far right) reads fashion magazines and attends classes to keep up with trends and to equip herself to advise shoppers.

Pharmacy has been a keystone of SuperX' growth. It continues to be. Last year some 23% of SuperX sales were represented by prescriptions versus a national average for chain stores reported by Chain Store Age Magazine at 17%. Prescriptions now are being filled at the rate of more than 18 million a year.

Health and beauty aids packed under the SuperX Brand will wear new, more informative labels during 1973. Plans now are being completed to list ingredients on the labels of such products as hand lotion, deodorant or mouthwash. This voluntary move was taken to assist consumers who may need this information because of allergies or other such problems.





## GROWTH CONTINUES . . .

SuperRx opened 46 new stores, remodeled and enlarged seven, and closed 28 marginal stores during 1972, ending the year with 476 drug stores. On one day in April, five stores were opened at once to enter San Antonio, Texas, a new market. SuperRx also opened two stores in Oklahoma and one in Mississippi, states where the company has not previously been located.

The trend toward larger stores carries forward with vigor into 1973, with 65 new stores averaging 14,730 square feet in size planned. Thirty successful stores in existing locations will be enlarged and remodeled to take advantage of the increased sales potential and better customer service made possible through newer, larger stores. These developments together will add approximately one million square feet of new store space in 1973. Store expansion will be keyed primarily to growth areas where the company presently operates, and where the potential of immediate returns of sales and profits is greater.

It's all there in the SuperRx of the 70's. Dynamic people. Bigger, better stores. More sophisticated merchandising. More for consumers. Centered always by the pharmacy.

SuperRx moves into another year with confidence. Continuing to believe that the success of each drug store is dependent on the ability to attract and keep prescription customers. Recognizing, too, that the expanded services made possible by this new kind of SuperRx Drug Store are also a part of today's living.

SuperRx has earned its maturity.





Top Value Enterprises in 1973 ranges around the world . . . in a whirling melange of carrousels, trading stamps, sales, safety, toys and travel.

Construction has begun on Kings Dominion, a \$30 million-plus recreation and entertainment center on a more than 800-acre site near Richmond, Virginia. It is the first joint venture of Family Leisure Centers, Inc., formed by Top Value and Taft Broadcasting Co. of Cincinnati to build amusement park complexes throughout the United States and in foreign countries.

In its first phase, Kings Dominion will include a major theme amusement park, a motel and a campground . . . similar in concept to Taft's Kings Island in Cincinnati, which completed its first highly-successful year in 1972.

Leisure-time industry represents a major growth area in the coming decade and it is an industry which promises an excellent return on investment.

While amusement parks represent Top Value's newest effort in the recreation field, the company also operates T.V. Travel Offices in Cincinnati, Dayton, Chicago, Washington, Los Angeles and London to handle the growing volume from stamp, incentive, group and individual travel arrangements.

The incentive business is growing — providing impetus and encouragement for everything from sales growth to safe driving for companies across the nation. Top Value also operates eight Toys Internationale — out-of-the-ordinary exclusive toy stores.

Trading stamps continue to show a normal though modest growth. Many Kroger stores offer Top Value stamps, although flexibility is maintained on a market-by-market basis.

All of these businesses operate independently, yet help to support each other by providing services and generating business. Top Value is building upon its basic strengths, but also is diversifying in faster-growing industries which offer superior growth potential and excellent return on investment opportunities.



The new Kings Dominion will be similar in concept to Kings Island, which attracted two million visitors during its first year of operation (including 30,000 people who redeemed books of Top Value stamps for admission). Above, International Street, with the Toys Internationale store at bottom right.



. . . Happy Food Stores' Sam Thompson

A Happy Food Store looks friendly even before you enter the front door. A laughing clown face matches the name . . . and symbolizes the shopping fun which distinguishes these 2200 square foot convenience stores.

Happy Food Stores represent a new venture for Kroger — convenience stores, franchised for operation by individual owners. First store opened in Cincinnati late in 1972 and will serve as a training center for franchisees.

Heading the new operation as president is Samuel D. Thompson, Jr., previously president of a Tampa-based chain of 500 convenience stores. (He's currently president of the National Association of Convenience Stores, whose members represent 18,000 convenience stores — or about 90% of those in the U. S.)

Initial development will be in the area of "nuclei" stores which can serve as a base for developing additional stores . . . primarily within a 150-mile radius of Cincinnati. Four stores in Indianapolis opened early in 1973. There also is one store in Columbus.

The convenience store industry nationally had sales of approximately \$3.8 billion in 1972, about 3.7% of total grocery sales . . . and an 8% to 10% share of the total retail food business is forecast by 1980.

Kroger sees continued growth in the convenience store field, both because of more consumer orientation toward convenience and because of development of the larger regional supermarket which will leave voids in market coverage.



# The Kroger Co. 1972 Annual Report • Financial Section

## SALES AND EARNINGS

Sales for the year totaled \$3,791 million, an increase of 2.2% from the \$3,708 million reported for 1971. Earnings before extraordinary items amounted to \$23.2 million, or \$1.73 per common share, a decrease of 36% from the \$36.3 million or \$2.71 per share reported for 1971. The decrease in earnings was caused primarily by increased wages and higher costs of goods, materials and supplies in the supermarket operations. At the same time, competitive conditions in the retail food industry, along with Government controls, prevented offsetting increases in retail prices.

Equity in net earnings of unconsolidated companies was \$8.0 million or 59¢ per share, up from \$2.6 million or 19¢ per share in the prior year. Substantially all of these earnings reflect the Company's equity in Top Value Enterprises, Inc.

Investment tax credits amounted to 28¢ per share, compared to 12¢ per share in 1971. LIFO inventory charges were 14¢ per share, up slightly from 11¢ per share a year ago. Net earnings for 1972 were \$18.4 million or \$1.37 per common share, after reflecting an extraordinary loss of 40¢ per share arising from discontinuance of the Company's Family Center Stores operation, and a credit of 4¢ per share resulting from a change in the method of recognizing earnings of Top Value Enterprises, Inc. These extraordinary items are explained more fully below.

Sales and earnings results for the two principal lines of business, supermarkets and drug stores, are shown in the following table:

### Sales

	SUPERMARKETS		DRUG STORES		Total
	\$ in Millions	% of Total	\$ in Millions	% of Total	
1972....	\$3,474	91.6%	\$ 317	8.4%	\$3,791
1971....	3,413	92.0	295	8.0	3,708
1970....	3,459	92.6	277	7.4	3,736
1969....	3,232	93.0	245	7.0	3,477
1968....	2,942	93.1	219	6.9	3,161

### Earnings (a)

	SUPERMARKETS		DRUG STORES		Total
	\$ in Millions	% of Total	\$ in Millions	% of Total	
1972....	\$ 24.1	65.1%	\$12.9	34.9%	\$ 37.0
1971....	59.4	85.9	9.7	14.1	69.1
1970....	72.6	83.2	14.6	16.8	87.2
1969....	67.8	84.3	12.6	15.7	80.4
1968....	61.5	87.6	8.7	12.4	70.2

(a) Before LIFO adjustments, taxes based on income and extraordinary items.

## DIVIDENDS

Dividends of \$1.30 per common share were paid in 1972, which marked the 71st consecutive year in which dividends have been paid out of current earnings. The regular quarterly dividend of 32½¢ per share, payable March 1, 1973 to shareowners of record February 2, 1973, was declared on January 12, 1973.

## CAPITAL EXPENDITURES

Capital expenditures for 1972 totaled \$55.3 million, up from \$47.1 million in 1971. Expenditures in 1972 included \$37.7 million, or 68% of the total, for retail stores and related equipment; \$11.4 million for food processing facilities and equipment; and \$5.7 million for distribution centers, equipment and vehicles.

## ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in preparing the Company's financial statements. These policies conform to generally accepted accounting principles and have been consistently applied.

### Principles of Consolidation

The consolidated financial statements include the Company and all of its domestic subsidiaries except Top Value Enterprises, Inc., three insignificant subsidiaries and all controlled companies, all of which are included in the earnings statement on the equity basis.

### Inventories

The inventories are valued at cost or market, whichever is lower. Cost for approximately 62 percent of these inventories at December 30, 1972 and 64 percent at January 1, 1972 is determined on the LIFO (last-in, first-out) method. LIFO inventories at December 30, 1972 and January 1, 1972 were approximately \$52,221,000 and \$48,476,000, respectively, less than the amounts of such inventories priced on the first-in, first-out basis. The methods of determining cost for the balance of inventories are retail and first-in, first-out.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization is computed principally on the straight-line basis.

### Excess of Cost of Investments in Consolidated Subsidiaries Over Equities in Net Assets

The excess of cost of investments in consolidated subsidiaries over equities in net assets at dates of acquisition (all of which originated prior to November, 1970) is not being amortized because, in the opinion of management, there has been no decrease in value.

### Deferred Federal Income Taxes and Investment Tax Credit

Deferred federal income taxes include the amount of tax applicable to the excess of depreciation for tax purposes over the normal depreciation used for financial reporting purposes, net of the amount of tax credits applicable to the unfunded portion of employees' benefit fund expense which has been charged to income.

Investment tax credits are included as reductions of income tax expense in the years in which the credits arise.



## UNCONSOLIDATED COMPANIES

The Company's equity in the net earnings of unconsolidated domestic subsidiaries and controlled companies has been included for their preceding fiscal year for those companies not on a calendar year closing. During 1972, the Company changed its method of accounting for the earnings of its only significant unconsolidated subsidiary, Top Value Enterprises, Inc., which has a fiscal year ending in March, to a calendar year basis to conform to the reporting period of its parent. As a result of this change, earnings of Top Value Enterprises, Inc. for the period March 28, 1971 through January 1, 1972 are shown as a credit resulting from a change in the method of applying an accounting principle. Accordingly, the Company's ordinary earnings include the earnings of Top Value Enterprises, Inc. in the amount of \$8,020,930 for calendar 1972 and \$2,120,922 for fiscal 1971. These amounts include gains on sale of securities, after applicable taxes, of \$7,072,365 and \$1,132,685 for calendar 1972 and fiscal 1971, respectively. If the change had not been made, earnings of Top Value Enterprises, Inc. for the year ended March 25, 1972 would have been included in the Company's 1972 net earnings in the amount of \$5,059,291. By changing this practice, 1972 net earnings were increased by 26¢ per share. If changed in 1971, the effect would not have been material.

Investments in and advances to unconsolidated companies at December 30, 1972 include:

Top Value Enterprises, Inc. at cost plus share of undistributed earnings since acquisition	\$21,622,060
Other domestic subsidiaries and controlled companies, at cost plus share of undistributed earnings since acquisition..	10,764,467
Foreign subsidiaries, at cost.....	494,504
	<u>\$32,881,031</u>

## EXTRAORDINARY LOSS

During the fourth quarter of 1972, the Company discontinued its Family Center Stores operation. The loss in the amount of \$5,340,920 after deducting tax benefits of \$4,930,080 includes known and anticipated costs relating to the liquidation of assets and termination of the operations. The extraordinary loss in 1971 relates to the discontinuance of operations in Wisconsin and amounts to \$4,056,000 after deducting tax benefits of \$3,744,000.

## PENSION PLANS

The Company and certain of its subsidiaries have noncontributory retirement plans for eligible employees. Pension costs accrued each year are presently being funded for only one of these plans. The Company also contributes to multi-employer plans jointly administered by management and union representatives. Over the past several years, a substantial number of participants in the unfunded plans have transferred to the multi-employer plans.

The actuarially computed value of vested benefits as of December 30, 1972 exceeded the total of the pension fund and balance sheet accruals by approximately \$8,000,000. Past service costs are being amortized over forty years for the funded plan.

The total pension expense for all plans for 1972 and 1971 was \$21,413,458 and \$21,573,347, respectively.

## TAXES BASED ON INCOME

The provision for taxes based on income consists of:

	1972	1971
Federal		
Currently payable .....	\$ 4,103,080	\$21,462,400
Deferred .....	1,117,000	2,846,600
	<u>\$ 5,220,080</u>	<u>\$24,309,000</u>
State and Local .....	4,813,835	5,708,865
Total .....	<u>\$10,033,915</u>	<u>\$30,017,865</u>

Investment tax credits reduced the tax provision by \$3,705,000 in 1972 and \$1,583,000 in 1971.

The Company follows the practice of reinvesting permanently the after-tax earnings of subsidiaries in order to meet the requirements of the business and, therefore, has not considered any additional tax provision to be appropriate. Undistributed earnings, exclusive of those amounts which if remitted in the near future would result in little or no tax because of current income tax laws, are not material in amount.

## LEASES

The Company operates principally in leased premises. Lease terms generally range from ten to twenty-five years with options of renewal for additional periods. Options provide in some cases for renewals at reduced rentals and/or the right to purchase. Aggregate minimum annual rentals for the next five years for leases in effect at December 30, 1972 are as follows: 1973 — \$57,695,000; 1974 — \$55,840,000; 1975 — \$52,704,000; 1976 — \$49,225,000; and 1977 — \$44,770,000. Aggregate minimum annual rentals for lease commitments relating to stores to be opened amounted to approximately \$8,534,000. Certain of the leases provide for additional rental based upon a percent of sales.

## LONG-TERM DEBT

Long-term debt at December 30, 1972 included:

5¼ % notes, 70% maturing in 1978, and 30% maturing in 1979; with annual prepayments of \$500,000 .....	\$ 5,650,000
5.3% notes maturing in 1981; with annual prepayments of \$750,000 .....	9,750,000
5½ % notes maturing in 1977; with annual prepayments of \$140,000 to November 1, 1973 and \$160,000 thereafter .....	800,000
8⅞ % notes maturing in 1975 .....	25,000,000
9% sinking fund debentures maturing in 1995; with annual prepayments of \$2,500,000 commencing in 1976 .....	50,000,000
6¼ % notes maturing in 1980; with annual prepayments of \$100,000 .....	800,000
	<u>\$92,000,000</u>
Less amount due within one year .....	1,510,000
	<u>\$90,490,000</u>

Under certain of the loan agreements, payments of cash dividends are limited. Under the most limiting agreement, accumulated earnings were unrestricted in the amount of \$93,781,654 at December 30, 1972.



## PREFERRED STOCK

The Company has authorized 750,000 shares of voting cumulative preferred stock. The stock has a par value of \$50 per share and is issuable in series. None is outstanding at December 30, 1972.

## COMMON STOCK

Changes in common stock during the fiscal years 1971 and 1972 were as follows:

	Issued		Treasury	
	Shares	Amount	Shares	Amount
Balance, Jan. 3, 1971	13,561,184	\$83,824,520	286,772	\$9,848,876
Exercise of Options	161,218	4,279,826		
Balance, Jan. 1, 1972	13,722,402	\$88,104,346	286,772	\$9,848,876
Exercise of Options	19,575	450,943		
Balance, Dec. 30, 1972	13,741,977	\$88,555,289	286,772	\$9,848,876

## STOCK OPTION PLANS

At December 30, 1972, options to purchase common stock of the Company were outstanding under the 1961, 1965 and 1969 Stock Option Plans. Options may be granted under the 1965 and 1969 Plans until 1975 and 1979, respectively. No further options may be granted under the 1961 Plan. At December 30, 1972, shares of common stock available for future options under the 1965 and 1969 Plans amounted to 40,920 shares and 97,776 shares, respectively. Options are granted at a price equal to the fair market value of the stock at the date of grant.

At January 1, 1972, options to purchase 407,735 shares of common stock were outstanding. Option transactions during 1972 may be summarized as follows: granted 158,924 shares (at prices ranging from \$20.75 to \$32.75 per share); exercised 19,575 (at prices ranging from \$20.31 to \$27.75 per share); expired or canceled 227,045 shares. Options to purchase 320,039 shares (at prices ranging from \$20.75 to \$37.31 per share) were outstanding at December 30, 1972. Options for 136,815 shares were exercisable at December 30, 1972.

## Report of Certified Public Accountants

To the Shareowners and  
Board of Directors  
The Kroger Co.

We have examined the consolidated balance sheet of The Kroger Co. and Consolidated Subsidiary Companies as of December 30, 1972, and the related consolidated statements of earnings, accumulated earnings and changes in financial position for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Top Value Enterprises, Inc., an unconsolidated subsidiary. These statements were examined by other independent certified public accountants whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Top Value Enterprises, Inc., is based solely upon the report of the other auditors. We previously examined and reported upon the consolidated financial statements of The Kroger Co. and Consolidated Subsidiary Companies for the 52 weeks ended January 1, 1972.

In our opinion, based upon our examination and the report of other auditors, the above referred to financial statements present fairly the consolidated financial position of The Kroger Co. and Consolidated Subsidiary Companies at December 30, 1972 and January 1, 1972, and the consolidated results of their operations and changes in financial position for the 52 week periods then ended in conformity with generally accepted accounting principles applied on a consistent basis, except for the change, in which we concur, in reporting earnings of Top Value Enterprises, Inc., as explained on page 10 in the financial section of this report.

*Lybrand, Ross Bros. & Montgomery*

Lybrand, Ross Bros. & Montgomery  
3800 Carew Tower  
Cincinnati, Ohio 45202  
February 16, 1973



# **CONSOLIDATED BALANCE SHEET**

<b>ASSETS</b>	<b>DEC. 30, 1972</b>	<b>JAN. 1, 1972</b>
<b>CURRENT ASSETS</b>		
Cash .....	\$ 35,125,543	\$ 47,276,753
Short-term investments .....	20,006,111	11,982,495
Receivables .....	53,423,149	44,192,317
Inventories .....	300,548,848	271,918,122
Store and general supplies .....	3,745,953	3,468,120
Prepaid and miscellaneous assets .....	18,634,426	15,714,058
Total current assets .....	<u>\$431,484,030</u>	<u>\$394,551,865</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land .....	\$ 16,292,446	\$ 17,951,202
Buildings .....	76,272,763	73,364,514
Equipment .....	360,870,394	349,487,893
Leaseholds and leasehold improvements .....	107,017,193	98,510,108
	<u>\$560,452,796</u>	<u>\$539,313,717</u>
Allowance for depreciation and amortization .....	235,240,764	221,516,182
Property, plant and equipment, net .....	<u>\$325,212,032</u>	<u>\$317,797,535</u>
<b>INVESTMENTS AND OTHER ASSETS</b>		
Investments in and advances to unconsolidated companies .....	\$ 32,881,031	\$ 22,200,091
Other investments, at cost, and other assets .....	7,198,047	7,817,826
Excess of cost of investments in consolidated subsidiaries over equities in net assets .....	14,050,755	14,050,648
Total investments and other assets .....	<u>\$ 54,129,833</u>	<u>\$ 44,068,565</u>
<b>Total Assets</b> .....	<u><u>\$810,825,895</u></u>	<u><u>\$756,417,965</u></u>



<b>LIABILITIES</b>	<b>DEC. 30, 1972</b>	<b>JAN. 1, 1972</b>
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt .....	<b>\$ 1,510,000</b>	\$ 1,708,000
Accounts payable .....	<b>208,914,982</b>	159,127,338
Accrued expenses .....	<b>81,572,607</b>	76,980,629
Accrued federal income and other taxes .....	<b>13,026,643</b>	12,794,711
Total current liabilities .....	<b><u>\$305,024,232</u></b>	<u>\$250,610,678</u>
<b>OTHER LIABILITIES</b>		
Long-term debt .....	<b>\$ 90,490,000</b>	\$ 92,000,000
Deferred federal income taxes .....	<b>21,992,000</b>	20,875,000
Employees' benefit fund .....	<b>39,959,237</b>	41,041,476
Total other liabilities .....	<b><u>\$152,441,237</u></b>	<u>\$153,916,476</u>
<b>Total Liabilities</b> .....	<b><u>\$457,465,469</u></b>	<u>\$404,527,154</u>
 <b>SHAREOWNERS' EQUITY</b>		
Common capital stock, par \$1, at stated value		
Authorized: 18,000,000 shares		
Issued: 1972 — 13,741,977; 1971 — 13,722,402 .....	<b>\$ 88,555,289</b>	\$ 88,104,346
Accumulated earnings .....	<b>274,654,013</b>	273,635,341
	<b><u>\$363,209,302</u></b>	<u>\$361,739,687</u>
Common stock in treasury, at cost — 286,772 shares .....	<b>9,848,876</b>	9,848,876
<b>Total Shareowners' Equity</b> .....	<b><u>\$353,360,426</u></b>	<u>\$351,890,811</u>
<b>Total Liabilities and Shareowners' Equity</b> .....	<b><u>\$810,825,895</u></b>	<u>\$756,417,965</u>

Pages nine through eleven of this report are an integral part of the financial statements.



## CONSOLIDATED STATEMENT OF EARNINGS

Years Ended December 30, 1972 and January 1, 1972

	1972 (52 Weeks)	1971 (52 Weeks)
Income:		
Sales .....	\$3,790,532,448	\$3,707,918,052
Equity in net earnings of unconsolidated companies .....	7,952,256	2,584,871
Total .....	<u>\$3,798,484,704</u>	<u>\$3,710,502,923</u>
Costs and Expenses:		
Merchandise costs including warehousing and transportation .....	\$2,982,886,510	\$2,920,964,393
Operating, general and administrative expenses .....	675,554,930	619,310,855
Rent .....	60,106,665	56,441,502
Depreciation and amortization .....	38,296,453	37,671,690
Interest on long-term debt .....	7,646,972	7,927,217
Other interest expense .....	779,990	1,900,321
Taxes based on income .....	10,033,915	30,017,865
Total .....	<u>\$3,775,305,435</u>	<u>\$3,674,233,843</u>
Earnings before extraordinary loss, and credit resulting from a change in the method of applying an accounting principle .....	\$ 23,179,269	\$ 36,269,080
Extraordinary loss, net of tax benefits .....	(5,340,920)	(4,056,000)
Credit resulting from a change in the method of applying an accounting principle .....	586,877	
Net Earnings .....	<u>\$ 18,425,226</u>	<u>\$ 32,213,080</u>
Average number of shares of common stock outstanding .....	13,448,068	13,392,141
Per share of common stock:		
Earnings before extraordinary loss, and credit resulting from a change in the method of applying an accounting principle .....	\$ 1.73	\$ 2.71
Extraordinary loss .....	(.40)	(.30)
Credit resulting from a change in the method of applying an accounting principle .....	.04	
Net earnings .....	<u>\$ 1.37</u>	<u>\$ 2.41</u>

## CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS

Years Ended December 30, 1972 and January 1, 1972

	1972	1971
Accumulated earnings — Beginning of the year .....	\$ 273,635,341	\$ 258,791,838
Net earnings for the year .....	18,425,226	32,213,080
	<u>\$ 292,060,567</u>	<u>\$ 291,004,918</u>
Dividends on common stock — \$1.30 per share .....	17,406,554	17,369,577
Accumulated earnings — End of the year .....	<u>\$ 274,654,013</u>	<u>\$ 273,635,341</u>

*Pages nine through eleven of this report are an integral part of the financial statements.*



## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended December 30, 1972 and January 1, 1972

	1972 (52 Weeks)	1971 (52 Weeks)
<b>SOURCES OF WORKING CAPITAL</b>		
From operations:		
Earnings before extraordinary loss, and credit resulting from a change in the method of applying an accounting principle .....	\$ 23,179,269	\$ 36,269,080
Charges (credits) to earnings not requiring funds:		
Depreciation and amortization .....	38,296,453	37,671,690
Provision for employees' benefit fund, net of payments .....	(1,082,239)	218,991
Provision for deferred federal income taxes .....	1,117,000	2,846,600
Equity in net earnings of unconsolidated companies .....	(7,952,256)	(2,584,871)
Total sources from operations before extraordinary loss ....	\$ 53,558,227	\$ 74,421,490
Extraordinary loss .....	(5,340,920)	(4,056,000)
Charges to extraordinary loss not requiring funds .....	932,913	2,413,626
Total sources from operations .....	\$ 49,150,220	\$ 72,779,116
Capital stock issued under option plans .....	450,943	4,279,826
Sale of capital assets subsequently leased back .....		15,000,000
Net book value of capital asset disposals .....	8,018,338	12,796,869
Total sources .....	\$ 57,619,501	\$104,855,811
<b>USES OF WORKING CAPITAL</b>		
Capital expenditures .....	\$ 55,335,141	\$ 47,105,269
Dividends paid .....	17,406,554	17,369,577
Reductions of long-term debt .....	1,510,000	1,823,437
Notes received related to capital asset disposals .....		986,610
Other changes, net .....	849,195	1,899,314
Total uses .....	\$ 75,100,890	\$ 69,184,207
Net increase (decrease) in working capital .....	\$ (17,481,389)	\$ 35,671,604
<b>ANALYSIS OF WORKING CAPITAL CHANGES</b>		
Current asset changes:	Increase (Decrease)	
Cash and short-term investments .....	\$ (4,127,594)	\$ 4,753,557
Inventories .....	28,630,726	9,320,607
Other current assets .....	12,429,033	(10,442,684)
Net increase in current assets .....	\$ 36,932,165	\$ 3,631,480
Current liability changes:		
Current portion of long-term debt .....	\$ (198,000)	\$ (6,950,969)
Accounts payable .....	49,787,644	(20,417,853)
Accrued expenses and taxes .....	4,823,910	(4,671,302)
Net increase (decrease) in current liabilities .....	\$ 54,413,554	\$ (32,040,124)
Net increase (decrease) in working capital .....	\$ (17,481,389)	\$ 35,671,604

Pages nine through eleven of this report are an integral part of the financial statements.



## FIVE YEAR SUMMARY

### EARNINGS STATISTICS

	1972	1971	1970(c)	1969	1968
<i>(thousands of dollars, except per share figures)</i>					
Sales .....	\$3,790,532	3,707,918	3,735,774	3,477,164	3,160,838
Earnings Before Extraordinary Items .....	\$ 23,179(a)	36,269(b)	39,769	37,336(d)	33,857
Dividends .....	\$ 17,407	17,370	17,192	17,034	17,091
Per Share					
Earnings Before Effect of LIFO .....	\$ 1.87(a)	2.82(b)	3.29	3.12(d)	2.79
Earnings Before Extraordinary Items .....	\$ 1.73(a)	2.71(b)	3.00	2.84(d)	2.63
Dividends .....	\$ 1.30	1.30	1.30	1.30	1.30

### BALANCE SHEET STATISTICS

<i>(thousands of dollars, except per share figures)</i>					
Inventories .....	\$ 300,549	271,918	262,598	271,889	233,177
Working Capital .....	\$ 126,460	143,941	108,270	56,318	77,561
Property, Plant and Equipment, net .....	\$ 325,212	317,798	336,574	305,254	260,962
Total Assets .....	\$ 810,826	756,418	768,093	692,599	590,069
Long-Term Debt .....	\$ 92,000	93,708	102,482	28,690	31,028
Shareowners' Equity .....	\$ 353,360	351,891	332,767	309,579	282,064
Per Share of Common .....	\$ 26.26	26.19	25.07	23.36	21.56

### OTHER STATISTICS

<i>(dollars and shares in thousands)</i>					
Depreciation and Amortization .....	\$ 38,296	37,672	35,720	31,929	31,157
Capital Expenditures .....	\$ 55,335	47,105	89,326	77,448	56,768
Common Shares Outstanding .....	13,455	13,436	13,274	13,252	13,082
Number of Shareowners .....	44,893	42,182	44,786	45,780	49,575
Number of Regular Employees .....	52,119	52,073	53,811	51,196	48,128

### RETAIL FACILITIES

<i>(areas in thousands of square feet)</i>					
Supermarkets					
Opened .....	59	67	99	58	58
Remodeled .....	57	74	85	112	107
Closed .....	126	157	94	41	46
Stores — End of Year .....	1,365	1,432	1,522	1,517	1,500
Total Area .....	24,896	25,688	26,457	25,917	25,194
Drug Stores					
Opened .....	46	47	53	37	41
Closed .....	28	20	3	3	3
Stores — End of Year .....	476	458	431	381	347
Total Area .....	4,525	4,253	3,946	3,482	3,172

(a) Represents earnings before extraordinary loss of \$5,340,920 or \$.40 per share arising from discontinuance of Family Center operations and credit of \$586,877 or \$.04 per share resulting from a change in the method of applying an accounting principle.

(b) Represents earnings before extraordinary loss of \$4,056,000 or \$.30 per share arising from discontinuance of Wisconsin operations.

(c) Fifty-three weeks.

(d) Represents earnings before extraordinary gain of \$1,342,120 or \$.10 per share arising from sale of investment.

#### TRANSFER AGENTS

The First National Bank of Cincinnati  
111 E. Fourth Street  
Cincinnati, Ohio 45202

Bankers Trust Company  
485 Lexington Avenue  
New York, New York 10017

#### REGISTRARS

The Central Trust Company  
Fourth and Vine Streets  
Cincinnati, Ohio 45202

Chemical Bank  
20 Pine Street  
New York, New York 10015

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**STANLEY R. SCHROTEL**, *Assistant Secretary*

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WALTER W. WHITE, *KFS General Merchandise Distribution*

(KFS) Kroger Food Stores

(KB) Kroger Brands



